

Report to Shareholders

For Year Ending December 31, 1947



THE BAKER-RAULANG COMPANY

CLEVELAND, OHIO

THE BAKER-RAULANG COMPANY

Cleveland, Ohio

Board of Directors

E. J. Bartlett

J. W. Moran

Irving C. Bolton

Laurence H. Norton

George S. Case

Robert C. Norton

George B. Folk

E. J. Stahl

Fred R. White, Jr.

Officers

E. J. Bartlett.....President

E. J. Stahl.....Vice President

D. L. Darnell.....Vice President

J. W. Moran.....Secretary & Treasurer

E. J. Scovil.....Asst. Secretary, Asst. Treasurer

THE BAKER-RAULANG COMPANY

ANNUAL REPORT

Cleveland, Ohio, March 1, 1948

TO OUR SHAREHOLDERS:

This is the annual report of your Company for the year ending December 31, 1947. It includes financial statements covering the Company's operations for that period which statements have been examined by Ernst & Ernst, Certified Public Accountants. Their letter certifying to such examination is a part of this report. In addition we are including information as to changes being made in manufacturing facilities and products.

Your Company for years has conducted its manufacturing operations in two Divisions, currently known as the Industrial Truck Division, located in the West 25th St. building, and the Commercial Body Division, located in the West 80th St. building. This separation is due to the difference in the two classes of products, requiring specialized engineering, manufacturing and selling organizations.

The Profit and Loss Statement contained in this report presents the consolidated figures for the Company, but also shows the share each Division had in these figures at the operating level. For convenience the following figures in even thousands of dollars from the 1946 and 1947 reports are compared. Percentages are computed to the nearest tenth.

YEAR	Company's Combined Net Sales	Truck Net Sales	Body Div. Net Sales	Company's Operating Profit	Company's Net Profit
1946	\$4,248,000	\$3,343,000	\$ 905,000	\$618,000	\$347,000
1947	5,313,000	4,021,000	1,293,000	787,000	482,000
Amt. of Increase	1,065,000	678,000	388,000	169,000	135,000
Percent Increase	25.1%	20.3%	42.9%	27.3%	39%

The Net Profit reported for 1947 is after provision for taxes on income in the estimated amount of \$301,000. The ratio of the Net Profit to the Net Sales Volume is about 9%.

It is not the policy of your Company to be unduly conservative in respect to provisions for business contingencies. However, because its products are quite complex and to a degree are sold in markets which are developing in pace with the industrial changes of the nation, particularly in the broader use of material handling, it has felt it necessary that substantial reserves be carried.

During the year reviewed your Company paid dividends to its Preferred shareholders in the amount of \$32,170.00 and dividends to its Common shareholders in the amount of \$31,297.20, thereby making total dividend payments of \$63,467.20.

The inventory accounts were also increased some \$280,000.00 in part due to the larger physical inventory required for the larger volume of business and in part due to the increase in cost of most inventory items. Further increases in inventory costs seem probable; therefore, some additional reserves against inventory values are shown in this report, which reserves may be subject to further small monthly increases during 1948 as conditions require.

Reflecting amortization of buildings and equipment in the approximate amount of \$50,000.00 plant accounts have been increased a net of about \$180,000.00 principally for the building program now underway. The initial transfer of some departments of the Industrial Truck Division to the new building is now in progress.

In compliance with provisions in the Company's Articles of Incorporation the directors of your Company set aside in a sinking fund for the purchase of Preferred shares the sum of \$15,648.60. During 1947 your Company purchased and retired 159 shares of its Preferred issue at a cost of \$15,677.50. Substantially all the sinking fund that had been provided, including a small balance carried over from 1946, was used.

Reference has been made in previous reports to the necessity for improved shop facilities for the manufacture of your Company's expanding line of material handling equipment. The manufacture and distribution of such general equipment is now quite

often referred to as a "Growth Industry." At least a conservative expansion of our well established line of BAKER power industrial trucks seems clearly indicated.

In this period of inflated building costs the most conservative use of the Company's assets appeared to be to employ our West 80th Street factory as a nucleus and, by modification of it and by building a suitable addition, to provide the necessary changes in manufacturing space, to the end that all of your Company's operations would be at the West 80th Street factory. This construction was gotten well under way during 1947 and should be completed during 1948 and 1949 as the schedule is now planned. Included in the total area of about 220,000 square feet is the new addition with over 65,000 square feet specially designed for our heavier manufacturing operations.

As body building operations are concluded at the West 80th Street factory, to clear it for industrial truck work, the machine tools and special equipment now used by the Body Division will be sold to one of its customers under a satisfactory price agreement. Without too great delay we hope to replace the normal sales volume of the Body Division by an equivalent increase in truck sales volume.

Experience over a period of years has shown that truck products are potentially more stable and profitable to manufacture than body products. Truck profits have been less vulnerable to downward changes in general business. They have another important advantage. A quite uniform and substantial percentage of our truck sales volume has been the sale of service parts and the rebuilding of machines. Such service and maintenance sales are profitable products of that business.

As the above changes in manufacturing policy are completed your Company's business will be entirely within the material handling industry. That industry should afford ample scope for future growth on a sounder basis than if the Company's interests continued to be divided between dissimilar classes of products.

In view of the important changes now being made brief reference to your Company's history may be in order, particularly as it is now entering its 95th year of continuous manufacture of vehicles. For 50 years of that period principal products have been electric vehicles. These followed the building of horsedrawn wagons and fine carriages before the automobile era.

In 1915 two companies, then building the nationally known Baker Electric and Rauch & Lang Electric Automobiles, combined their business and your Company, in substantially its present corporate form, was established. Within a few years the chassis of these electrics, in a manner of speaking, were converted into industrial trucks and the equivalent of the bodies were manufactured as custom bodies for various automobile and motor truck companies and users. The result was our two factories operated by the two Divisions of the business mentioned in this report.

During the reconversion years of 1946 and 1947 the BAKER line of power industrial trucks, and allied types and equipment and markets, have been expanded to meet the changing problems for the mechanical handling of materials within the load capacity range of 1000 to 20,000 pounds. Particular attention has been given to types of fork trucks for the handling of materials in modern palletized systems.

At the beginning of 1948, prospects for our business appear encouraging, although we anticipate more competition than during the past two years. With the normal problems of manufacturing during this unsettled period will be those incident to the changes we are making in our business as described in this report. We hope to schedule these so that such increase in expenses and interruptions to operations as may result will be held to a minimum.

Respectfully submitted,

E. J. BARTLETT,

President

THE BAKER-RAULANG COMPANY, CLEVELAND, OHIO

December 31, 1947

ERNST & ERNST Cleveland

Board of Directors,
The Baker-Raulang Company,
Cleveland, Ohio.

We have examined the balance sheet of The Baker-Raulang Company as of December 31, 1947, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, except for the inclusion of inventories at December 31, 1947, on the basis as stated in Note A to the financial statements, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of The Baker-Raulang Company at December 31, 1947, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Certified Public Accountants

Cleveland, Ohio
February 16, 1948

THE BAKER-RAULANG COMPANY

BALANCE SHEET

December 31, 1947

ASSETS

CURRENT ASSETS

Cash		\$ 452,020.05
Trade notes (\$1,704.62) and accounts receivable	\$638,630.94	
Less reserve	4,500.00	634,130.94
Refundable federal taxes on income of prior year		24,471.70
Inventories—Note A:		
Finished products	\$ 14,305.36	
Service parts	446,051.45	
Orders in process and sub-assemblies	997,117.05	
Raw materials	205,540.05	1,663,013.91
TOTAL CURRENT ASSETS		\$2,773,636.60

OTHER ASSETS

Claim for refund of renegotiation payments—estimated	\$ 14,162.70	
Cash on deposit for purchase of preferred shares—Note B	10.10	
Mutual insurance deposit (\$11,328.47) and sundry other receivables	11,918.46	26,091.26

PROPERTY, PLANT, AND EQUIPMENT—at cost (including \$264,874.17 for fully-amortized emergency facilities) less reserves for depreciation and amortization

Land	\$163,766.31	
Buildings, machinery, and equipment \$1,239,474.06		
Less reserves for depreciation and amortization	777,755.13	461,718.93
Construction in progress—Note C	93,000.00	718,485.24

PATENTS AND GOOD WILL

1.00

DEFERRED CHARGES

Small tools and factory supplies	\$ 41,675.26	
Prepaid insurance, taxes, and interest	7,116.49	48,791.75
		\$3,567,005.85

THE BAKER-RAULANG COMPANY

BALANCE SHEET

December 31, 1947

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES

Note payable to bank	\$ 100,000.00	
Accounts payable	199,418.80	
Salaries, wages, and pay roll taxes	38,658.99	
Accrued real estate taxes	7,798.20	
Federal taxes on income—estimated	308,000.00	
TOTAL CURRENT LIABILITIES	\$ 653,875.99	

RESERVES (surplus reserves)

For contingencies	\$ 185,127.51	
For future possible losses in inventories....	77,000.00	262,127.51

CAPITAL STOCK AND SURPLUS

Capital stock:

Preferred stock, \$5.00 cumulative if
earned, par value \$100.00 per
share, redeemable at \$105.00
a share and accumulated un-
paid dividends—Note D:

Authorized 7,500 shares;		
issued 7,443 shares	\$ 744,300.00	
Less 1,168 shares retired	116,800.00	\$ 627,500.00

Common stock, par value \$1.00 per
share:

Authorized 100,000 shares;		
issued and outstand- ing 78,243 shares	78,243.00	
	\$ 705,743.00	

Surplus:

Capital surplus	\$ 543,670.38		
Earned surplus—since July 1, 1936	1,401,588.97	1,945,259.35	2,651,002.35
			\$3,567,005.85

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

STATEMENT OF SURPLUS

Year ended December 31, 1947

CAPITAL SURPLUS

Balance at January 1, 1947.....	\$ 543,447.88
Add excess of par value over cost of 159 shares of preferred stock purchased for retirement.....	222.50
BALANCE AT DECEMBER 31, 1947.....	<u>\$ 543,670.38</u>

EARNED SURPLUS (since July 1, 1936)

Balance at January 1, 1947.....	\$ 933,593.00
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Additions:

Balance transferred from profit and loss after appro- priation of \$24,000.00 as reserve for future possible losses in inventories.....	\$481,804.54
Refundable federal taxes on income, arising from over- assessment in 1945 (\$24,471.70) and other years...	27,171.95
Net credit resulting from capitalizing items previously expensed	17,893.66
Adjustment of claim for refund of renegotiation payments	4,593.02
	<u>531,463.17</u>
	\$1,465,056.17

Deduct dividends paid:

On preferred stock—\$5.00 per share.....	\$ 32,170.00
On common stock—\$.40 per share.....	31,297.20
	<u>63,467.20</u>

BALANCE AT DECEMBER 31, 1947.....	<u>\$1,401,588.97</u>
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Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

PROFIT AND LOSS STATEMENT

Year ended December 31, 1947

	Industrial Truck Division	Commercial Body Division	Combined
Net sales	\$4,020,599.34	\$1,292,559.07	\$5,313,158.41
Cost of goods sold	2,581,083.91	1,048,725.72	3,629,809.63
	\$1,439,515.43	\$ 243,833.35	\$1,683,348.78
Expenses:			
Sales engineering	\$ 700,541.16	\$ 14,976.96	\$ 715,518.12
Administrative and general	123,144.06	57,228.18	180,372.24
TOTAL EXPENSES	\$ 823,685.22	\$ 72,205.14	\$ 895,890.36
	\$ 615,830.21	\$ 171,628.21	\$ 787,458.42
Other income:			
Commissions earned		\$ 13,164.59	
Profit on disposal of depreciable assets		2,519.10	
Net income from rented property		1,685.16	
Interest earned		941.22	
Miscellaneous		2,045.74	20,355.81
			\$ 807,814.23
Other deductions:			
Interest expense			741.57
PROFIT BEFORE TAXES ON INCOME			\$807,072.66
Federal taxes on income:			
Provision for the year—estimated		\$ 308,000.00	
Overprovision for prior year		6,731.88	301,268.12
NET PROFIT			\$ 505,804.54
Amount appropriated as reserve for future possible losses in inventories			24,000.00
BALANCE TRANSFERRED TO SURPLUS			\$ 481,804.54

Provision for depreciation of property, plant, and equipment included above amounts to \$51,614.17.

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 1947

Note A—The amount stated for inventories includes \$1,514,552.33 which was the aggregate amount of general ledger balances representing the inventory amounts for the West 25th Street plant. No physical inventories have been taken at this plant since December 31, 1946. The accumulations of the general ledger balances are based on the Company's cost procedures which have been followed consistently for a number of years. The remaining portion (\$148,461.58) of the inventories is based on counts, weights, or measurements made by employees of the Company as of December 31, 1947, and priced at the lower of cost or replacement market.

Note B—Whenever a cash dividend is paid on common shares there shall be set aside in a sinking fund for the purchase for retirement of preferred shares an amount equal to at least one-half but not in excess of the aggregate amount of such dividend. During the year 1947, deposits in the sinking fund aggregated \$15,648.60 and 159 shares of preferred stock were purchased for retirement at a cost of \$15,677.50.

Note C—During the year the Board of Directors authorized the proceeding with approximately 40% of a proposed plant expansion and remodeling program under which contracts, estimated to result in an expenditure of approximately \$230,000.00, were entered into prior to December 31, 1947.

Note D—Dividends on preferred stock, to the extent earned but not in excess of \$5.00 a share per year, shall be cumulative when not paid on or before October 1st of the year following that in which earned. During the year dividends paid on preferred stock aggregated \$5.00 a share of which \$1.25 per share completed payments aggregating \$5.00 a share applicable to the year 1946, and \$3.75 a share was applicable to the year 1947.

Note E—On July 15, 1947, the Company entered into a term loan agreement with a bank under which borrowings not in excess of \$300,000.00 may be made during the period from June 15, 1948, to July 15, 1948. Among other things, the agreement provides that the Company will maintain net current assets of \$1,000,000.00 or more.

